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BEFORE THE ARIZONA CORPORATION COMMISSION

RENZ D. JENNINGS
Chairman
MARCIA WEEKS
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF: RESTRUCTURING OF ARIZONA'S ELECTRIC INDUSTRY	DOCKET NO. U-0000-94-165 ASARCO, INCORPORATED'S, BHP COPPER INC.'S AND CYPRUS BAGDAD COPPER CORPORATION'S RESPONSES TO REQUEST FOR COMMENTS ON ELECTRIC INDUSTRY RESTRUCTURING

ASARCO, Incorporated ("Asarco"), BHP Copper Inc. ("BHP") and Cyprus Bagdad Copper Corporation ("Cyprus") jointly provide the attached answers to the questions posed by the staff of the Arizona Corporation Commission in a letter dated February 22, 1996.

Respectfully submitted this 28th day of June, 1996.

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I. Electric Industry Restructuring - Measurement of Objectives

Asarco, BHP and Cyprus recommend the following actions and measurements with respect to each of the objectives of restructuring identified by staff. These recommendations are presented in conjunction with a proposed two-stage phase-in to full competition, which is described in more detail in this filing.

1. *Encourage the benefits of retail competition.*

Recommended action

- Phase-in retail competition for all customers as described in Section II

Measurement

- Monitor delivered prices to customers
- Monitor the range (numbers) of suppliers and products/services

2. *Limit the potential harm to utilities and utility investors.*

Recommended action

- Do not mandate divestiture
- Establish a stranded investment docket

Measurement

- Rely on existing market measures

3. *Enable a wide range of consumers to participate in competitive market.*

Recommended action

- Phase-in retail competition for all customers as described in Section II

Measurement

- Monitor participation levels by customer class during phase-in
- Monitor number of product and service options available to different customer classes

4. *Limit the potential for decreases in electric system reliability.*

Recommended action

- Continue to use the reliability criteria of the Western States Coordinating Council (the "WSCC")

- Require reliability services to be offered in transmission tariffs

Measurement
- Measure the number of forced outages, if any, by extent and location
- Monitor the number and nature of customer complaints

5. *Limit the potential for market impediments.*

Recommended action
- Require functional separation of traditional utility functions (generation, transmission and distribution) to ensure non-discriminatory access to the transmission and distribution systems
- Require that electrical service be available to all consumers under functionally unbundled tariffs, to permit full competition
- Avoid institutional/regulatory impediments to supply-side participation

Measurement
- Apply industry concentration indices, such as the Herfindahl-Hirschman Index, to the electric generation and retail supplier markets

6. *Encourage a variety of market developments.*

Recommended action
- Implement the phase-in to full competition that is discussed below; let the market reveal solutions instead of attempting to impose them

Measurement
- Market activities identified in Section II can be assessed during the transition to competition by means of periodic staff reports
- Compare regional prices for unbundled services

7. *Promote renewable resources.*

Recommended action
- Establish/encourage green tariff(s)

Measurement
- Monitor green tariff participation levels
- Monitor green tariff price differential

8. *Protect important public programs.*

Recommended action

- Identify programs to be phased out or transitioned to other forums
- Apply cost-benefit analysis to identify funding levels for remaining programs

Measurement

- Depending upon the programs retained, measurement could include program participation levels

9. *Shield customers who cannot participate in competitive programs*

Recommended action

- Implement policy regarding provider of last resort
- Establish a fund for reimbursement of providers of last resort

Measurement

- Identify functionalized cost-of-service for captive customers
- Track program participation levels

II. Electric Industry Restructuring - Responses to Questions

A1. Affected Utilities. Which utilities should open their markets to competition?

All Arizona utilities subject to the jurisdiction of the Arizona Corporation Commission (the "ACC") should be required to open their markets to retail competition and associated customer choice. The Arizona legislature (the "Legislature") should require utilities not subject to regulation by the ACC to open their markets to competition as well. (Asarco, BHP and Cyprus realize that some issues, such as those relating to reciprocity of open electricity markets among states and the legal authority of a rural electric cooperative to provide electrical service to persons or entities who are not members of the cooperative, may require federal legislation to resolve.)

A2. Scope of Restructuring.

a. How much of the utilities' markets should be opened to competition?

A phase-in period, rather than a pilot program, should begin March 1, 1997. Stage I of the phase-in should provide fully-open retail access for 3 percent of each utility's small-load customers (defined as those individual customers with aggregate peak demands less than 3,000 kW), and partially-open access for all large-load customers (defined as those individual customers with aggregate peak demands of 3,000 kW or greater). Partially-open access for large-load customers would be achieved by permitting retail access for 5 percent of each customer's base period load, plus all large-customer incremental load. A suggested base period for measuring large-customer load is 1994 through 1996. A second stage phase-in, allowing unrestricted open access for all large-load customers and a continued managed phase-in of small-load customers, should begin March 1, 1998.

Unrestricted open access for all customers (Stage III), should begin March 1, 2000.

b. Which consumers should be allowed to shop around for power and energy? Consider both geographic areas and consumer classes.

All consumers should be allowed to shop for power and energy supply. Generally, metering costs and other economic considerations make it likely that customers with larger loads will be prepared to participate in an open market earlier than customers with relatively smaller loads. While the ACC should carefully manage an expeditious transition from the current regulated market for all customers, there should be no attempt to constrain those prepared to go first.

c. *Should utility customers served under existing contracts be eligible to participate in the competitive market prior to expiration of the existing contracts?*

Yes, if there is voluntary and mutual agreement by the parties to an existing contract.

d. *If divestiture were undertaken, how should it be accomplished?*

Any divestiture of utility assets should be voluntary. However, functional separation of the generation, transmission, and distribution systems should be mandated to ensure non-discriminatory dispatch of generation and access to retail transmission. ACC efforts to achieve functional separation to facilitate retail access should be coordinated with policies adopted by the Federal Energy Regulatory Commission ("FERC"), which is actively promoting non-discriminatory access to the wholesale transmission market. FERC's policies include requiring public utilities to rely on the same pricing and availability information as other transmission customers when buying or selling power.

For Stage I of the phase-in, non-discriminatory dispatch and access should be incorporated in a transitional protocol developed under ACC auspices prior to March 1, 1997. This transitional protocol should utilize the existing utility functional structure, pending development of a detailed functional separation plan during Stage I for implementation in Stage II. As part of the ACC's assessment of functional separation in Stage I, the advantages and disadvantages of mandating an independent system operator, for implementation during Stage II, should be considered.

Generally, functional separation should be structured to be consistent with the following regulatory conditions:

1) generation is unregulated;
2) transmission is regulated by FERC and a state regulatory commission;
3) distribution is regulated by a state regulatory commission; and
4) provision of electrical service and related products to customers at the retail level is unregulated.

Technical issues relating to functional separation should be addressed during the phase-in period and should not be viewed as an impediment to phasing in retail competition.

A3. Term of Restructuring.

a. When should competition start?

As stated in our response to A.2.a. above, a two-stage phase-in period should begin no later than March 1, 1997 with full competition with functionally unbundled rates implemented by March 1, 2000. (Functionally unbundled rates should be made available through tariffs that break down all cost components of providing service.) The target date of March 1, 2000 for full competition with functionally unbundled rates is consistent with (and actually later than) restructuring schedules that have been adopted in several states. For example:

- New Hampshire SB1392, passed by the New Hampshire legislature and signed by the Governor of the state, provides for full competition in 1998, most likely at the conclusion of the state's two-year retail wheeling pilot program (begun May 28, 1996).

- The California Public Utilities Commission order establishing a combined retail wheeling/mandatory pooling environment for the state beginning January 1, 1998.

- Proposed retail wheeling legislation in Massachusetts (SB460, SB421, and SB2168) is awaiting the Massachusetts Department of Public Utilities final policy report to the Massachusetts legislature. The Massachusetts DPU has issued for comment proposed rules for the restructuring of the electric industry with a recommended start date for full competition of January 1, 1998.

- The New York Public Service Commission has ordered utilities to file restructuring plans by October 1996 and has directed the establishment of a wholesale poolco by 1997. Retail wheeling is to begin on a phased-in basis for all customer classes by 1998.

- An amended version of Rhode Island's Utility Restructuring Act of 1996 (Bill 96-H 8124) has passed the Rhode Island House of Representatives and is now before the Rhode Island Senate. The bill requires that retail wheeling begin on July 1, 1997 using a phase-in approach which will be completed by July 1, 1998, when all customers will have access to alternative suppliers.

- The Illinois Commerce Commission has approved two pilot programs for retail wheeling for customers of Central Illinois Light Company ("CILCO"). The first, Rate 33, is offered to customers having demands of ten megawatts or greater. The second, Rate 34, is to be

offered to all CILCO customers within specified geographic areas. Customers participating in either program will be allowed to utilize aggregators to consolidate their electric requirements. Rates for the unbundled transmission services supplied to customers participating in both programs are identical to the transmission charges for wholesale energy filed by CILCO with the FERC. Unbundled distribution services use embedded cost principles based on net plant.

- Portland General Electric has filed a proposal with the Oregon Public Utility Commission to expand and update its experimental market-based rate option, which ties rates to prices at the California-Oregon border ("COB"). The proposal makes available a new Schedule 67, that updates an older schedule, Schedule 87. Schedule 67 is called "market supply service." This schedule allows customers to choose between a daily index price based on the non-firm COB price or a fixed price. The proposal is an experimental option under which customers phase in portions of their load over a three year period. During the first year, customers place one-third of their load on the schedule. Portland General Electric has the option of expanding the load to two-thirds at the beginning of the second year and to 100% by the beginning of the third year.

b. *If competition is in the form of a pilot or phase-in, how long should the pilot or phases run? Please describe the phases of a phase-in. Please consider that many larger customers of utilities are currently under contract and may not be able to shop around until those contracts expire.*

As stated in our response to question A.2.a. above, we recommend that the ACC begin planning immediately to implement a phase-in to competition, with phase-in to begin by March 1, 1997. Proposed levels of customer participation during the phase-in are as follows:

Phase-in, Stage I
Starting date: March 1, 1997

Residential - 3 percent of customers, eligible through lottery
Small commercial - 3 percent of customers, eligible through lottery
Large commercial/industrial - Each individual customer with aggregate peak demand of 3,000 kW or greater permitted to purchase off-system for all loads in excess of 95 percent of base period (1994 through 1996) load.

The first stage of the phase-in should provide for open access for a fraction of small-load customers, and partial open access for all individual customers with aggregate peak demands of 3,000 kW or greater, limited to loads exceeding 95

percent of their base period usage. The 3 percent level of participation for some small-load customers in Stage I is consistent with the plan underway in New Hampshire. The experience gained in providing retail access for some small-load customers should be used to design the transition to full competition for all of these customers during Stage II.

During the first stage of the phase-in, ACC rule making should address the functional separation issues, such as compatibility with FERC open access requirements for wholesale transactions, the magnitude of stranded investment (to be determined in a separate docket proceeding, as discussed below), the future treatment of special ACC programs, and the provider of last resort for small-load customers.

Phase-in, Stage II
Starting date: March 1, 1998

Residential - managed phase-in through March 1, 2000
Small commercial - managed phase-in through March 1, 2000
Large commercial/industrial - unrestricted open access for all individual customers with aggregate peak demand of 3,000 kW or greater.

Stage II should begin no later than March 1, 1998, and should permit completely open retail access with functionally unbundled rates for large-load customers and continued transition to competition for small-load customers. Policies to address stranded investment, functional separation, ACC programs, and provider of last resort should be in place by this date. During Stage II, metering requirements and service unbundling for small-load customers should be developed and refined. The timing and procedure for granting open access for all small-load customers in Stage II should be flexible and adaptable to the lessons learned in Stage I and in other regulatory jurisdictions, but should be subject to a mandatory completion date of March 1, 2000.

The two-stage phase-in should be conducted in the service territories of all regulated electric utilities in Arizona. The first two stages should be followed by a Stage III, which would be characterized by full retail competition and functionally unbundled rates for all customer classes.

Stage III
Starting date: March 1, 2000

All customers - unrestricted open access and functionally unbundled rates

A timeline, entitled Electric Competition Implementation Schedule for Arizona, is attached. The timeline is a proposed schedule for implementing the three stages that are described above.

c. *If competition is in the form of a pilot, how can the term of the pilot be set so as to avoid discouraging long term contracts signed under the pilot?*

Because the initial period of competition should be a committed phase-in and not a time-limited pilot, long-term contracts pose no special problem.

A4. ***Services Available on a Competitive Basis.*** *Which services should be available in a competitive market?*

- *Distributed energy services at market based rates (serving multiple consumers located in proximity, and not requiring transmission service from others) ; this is distinct from on-site self generation for just one consumer.*
- *Central station generation services at market based rates (generation serving one or more consumers located at a distance from consumers and requiring transmission service).*
- *Other services described in Sections A5, A6, A7 and A8.*
- *Other services (please describe).*

Most of the services listed in A4, A5, A6, A7, and A8 should be available in a competitive market. Exceptions are noted below.

A5. ***Necessary Services.*** *Utilities and perhaps other parties will have to address the services listed below. Please indicate how these services should be offered, measured (metered), and priced on an unbundled basis.*

- *Distribution service*
- *Transmission service*
- *Supplemental generation service*
- *Imbalance service (including accounting for losses)*
- *Back-up (standby) service*
- *Voltage control*
- *Other ancillary services necessary for maintaining system reliability*
- *Scheduling of supplies and demands*
- *Repairs/consumer complaints*
- *Other necessary services--please describe*

The following approaches are recommended for each of the services identified:

Distribution service - Distribution service should remain under ACC price and service regulation, priced on a cost-of-service basis without inter-class subsidization.

Transmission service - The ACC should mandate that access to the transmission system be made available on a non-discriminatory basis to Arizona retail customers under the same FERC transmission order that applies to wholesale customers. To prevent discriminatory practices, it will be necessary to require some type of functional separation of utility services. One approach is to require public utilities to rely on the same pricing and availability information as other transmission customers when buying or selling power. The FERC is pursuing this objective in proposing the "Open Access Same-Time Information Systems" (OASIS) approach in Order 889, which will require public utilities that own or control transmission to set up an electronic market information system to handle all transmission transactions. The ACC should monitor the development of OASIS and consider it an available tool to facilitate retail competition.

The ACC should also encourage the development of both firm and non-firm transmission service, with the buyers of firm service having the ability to release or reassign, in a market for released capacity, their capacity subject to conformity with reliability commitments and applicable price caps. The capacity reservation tariff proposed by the FERC in Order 888 is intended to achieve this result in the wholesale market by December 31, 1997. An ACC mandate to provide retail access will enable Arizona retail customers to participate in this transmission market development.

Supplemental generation service - Supplemental service can refer to more than one type of product. For example, it could mean supplemental power supplied to an end user in excess of on-site generation. It could also be supplemental electric supply to an end-user in excess of the contractual limit of an electric supply agreement with an off-system supplier.

Both forms of supplemental service should be available in a competitive market. The contracting process will provide the opportunity for the end-user and the provider to specify the nature of the supplemental service and address features such as firmness of supply and pricing. These services should be metered in the same manner as other distributed energy services.

A provision for supplemental service which augments off-system purchases of transport power and energy is included in Section VII.B of the proposed T-1 tariff, for transmission level voltage and in Section VII.B of the proposed D-1 tariff, for distribution level voltage attached to this filing.

Imbalance Service - Imbalance service must be provided to rectify differences which occur between scheduled and delivered energy. Typically, an energy imbalance is eliminated during a future period by returning energy in-kind under conditions similar to those when the initial energy was delivered. However, deviations outside a specified band, typically 1.5 percent per hour, are usually subject to provisions which require purchase of power. A reasonable provision is one which is compensatory to the transmission provider for providing balancing energy beyond the specified band in the case of a negative deviation, and which, conversely, requires a payment by the transmission provider for its purchase of balancing energy beyond the specified band in the case of a positive deviation. A reasonable pricing standard in the latter case is the transmission provider's avoided energy cost, if applicable. These provisions are included in the proposed T-1 tariff, attached to this filing, in Section VI.B, and in the proposed D-1 Tariff, attached to this filing, in Section VI.B.

Back-up Service - As is the case with supplemental service, back-up service can be defined with respect to self-generation or retail access. Both types of back-up service should be available in a competitive market. The contracting process will provide the opportunity for the end-user and the provider to identify the specific nature of the back-up service. Retail access customers should be able to back-up their power and energy supplies through the purchase of operating reserve services, both spinning and supplemental, from their transmission provider, or from an alternative source. Provisions for these services are included in Sections VI.C and VI.D of the T-1 tariff, and in Sections VI.C and VI.D of the D-1 tariff.

Voltage Control - Reactive supply and voltage control from generation sources must be provided, at FERC-regulated rates, from the provider of transmission services. A provision for this service is included in Section V.C. of the proposed T-1 tariff, and in Section V.C. of the proposed D-1 tariff. Transmission-related voltage control will be considered by the FERC to be a cost of providing basic transmission service, and thus should not require additional charges. However, customers capable of providing transmission-related reactive supply and voltage control themselves should be permitted to do so, and be empowered to negotiate such terms in their service agreements with the transmission provider.

Other Ancillary Services - A provision for regulation and frequency response (load following) is included in Section VI.A. of the proposed T-1 tariff and in Section VI.A. of the proposed D-1 tariff. This service can also be provided in a competitive market, if the necessary metering is installed.

Scheduling of Supplies and Demands - FERC will require that scheduling, system control, and dispatch be provided by the transmission service provider. A provision for this service is included in Section V.B. of the proposed T-1 tariff and in Section V.B. of the proposed D-1 tariff..

Repairs/Customer Complaints - A protocol for appropriate handling of repairs on the customer's side of the meter should be based on current procedures. Repairs on the "utility" side of the meter should be the responsibility of the owner/operator, unless otherwise specified by contract. As a practical matter, most service-related consumer complaints are best directed to the distribution system operator. Billing related complaints should be directed to the particular billing entity.

Other Necessary Services - Other services that should also be available include "provider of last resort" service and service to those for whom there is a recognized societal "obligation to connect." These programs should be established in a special rule making proceeding conducted by the ACC during Stage I of the phase-in as described above.

A6. Market Center Services. *The market may benefit from the services listed below. Please indicate how these services should be offered and priced.*

- *Title transfer*
- *Transaction confirmation*
- *Establishing credit standards*
- *Invoicing*
- *Dispatching of transmission/generation*
- *Exchanges/swaps*
- *Interruption notification*
- *Imbalance trades*

Invoicing, at least for small-load customers, should be performed by the retail service provider and should include a breakdown of each of the applicable unbundled cost components (i.e., generation, transmission and distribution) necessary for bringing electric power to the customer's meter.

Interruption notification and dispatching of transmission/generation should be performed by, or on behalf of, the transmission system operator. The latter service must remain subject to a protocol which enforces non-discriminatory access and pricing.

With respect to the other identified services, a climate should be established which encourages the availability of each in an open market. The forum for offering and pricing each of the remaining identified services is likely to evolve naturally, with pricing tied to a transactional or percentage-of-volume basis.

A.7 Spot Market Services. *The market may benefit from the services listed below. Please indicate how these services should be offered and priced.*

- *Electronic bulletin boards for spot transactions/prices*
- *Power pooling services*

- *Coordination with futures/options markets*

Access to regional spot markets is likely to develop as a natural feature in a competitive market which utilizes bilateral contracting. The retailing services sector is likely to offer this service, as well as coordination with futures/options markets. Power pooling services should build upon existing power pooling arrangements, which should be expanded to include voluntary agreements with non-utility generators.

As noted in our response to A5, an electronic bulletin board for transmission transactions, OASIS, is being required by the FERC under Order 889. Public utilities that own or control transmission systems will be required to set up an OASIS to ensure that transmission customers can obtain open access transmission service on a non-discriminatory basis. While OASIS is currently envisioned as a tool to assist in wholesale transactions, its use should be directly applicable to retail transactions.

A8. ***Transmission Service.*** *For a competitive market to work, utilities owning transmission facilities must provide transmission service. Please indicate how the following objectives would be met:*

- *Services must be provided consistent with FERC tariffs.*
- *Utilities must accept power delivered to their transmission systems by other suppliers and offer wheeling services comparable to services they provide to themselves.*
- *All sellers supplying consumers must have interconnection agreements with owners of necessary transmission facilities.*

As indicated in our response to question A5 above, the ACC should mandate that access to the transmission system be made available on a non-discriminatory basis to Arizona retail customers under the same FERC transmission tariff which applies to wholesale customers. Consistency with FERC tariff provisions will likely be enforced by the FERC itself.

The features of delivery acceptance and comparability of services are cornerstones of the FERC's open access policy for wholesale transactions. In fact, the FERC goes further, by proposing OASIS, which will require public utilities to rely on the same pricing and availability information as other transmission customers when buying or selling power. These features are directly applicable to retail transactions and are likely to be required by the FERC if an ACC-mandated retail access program goes forward. As functional separation issues are more fully addressed in Arizona (during the Stage I phase-in proposed above) the relative merits of pursuing an independent system operator approach to the transmission system can be determined.

Transmission interconnection agreements should follow the existing technical requirements of the WSCC. Economic and legal aspects of interconnection should be

governed by application of the FERC's open access requirements for wholesale transactions to the retail market.

A9. ***Recovery of Stranded Investment.*** *Please indicate how the recovery (if any) of stranded investment should be accomplished. Address each of the following issues:*

a. The definition of stranded investment.

Stranded investment is the difference between the market value of a utility's generation, transmission, and distribution system in a competitive environment and the net book value of that system under traditional regulation.

b. The fraction of stranded investment which should be recovered.

Logically, the cost of stranded investment is equal to the premium paid by captive ratepayers due to the current prohibition on competitive alternatives. This premium has numerous causes, including past capital investment decisions by utilities. At present Asarco, BHP and Cyprus do not have sufficient information to recommend what fraction, if any, of stranded investment should be recovered by Arizona utilities. The utilities should be required to provide the necessary information for further study in a separate ACC docket during Stage I of the phase-in period. Completion of that docket should not, however, delay implementation of the phase-in program described above.

c. How the commission will determine the amount of stranded investment, taking into account: revenues under traditional tariffed rates (or existing special contracts); actual utility revenues from customers who obtain discounted rates or obtain service from others; increases in net revenues from wholesale sales and additional retail sales, including the effects of price elasticity of demand; increases in the value of assets due to new pricing or competition; mitigation of stranded investment; and other relevant factors.

The definition of stranded investment that is stated in response to A.9.a. above requires that the computation of stranded investment incorporate offsetting benefits to a utility following the introduction of competition. Potential benefits may include increased wholesale and additional retail sales, development of new services, and certain generation assets which appreciate in value in a competitive market.

At present Asarco, BHP and Cyprus do not have sufficient information to determine the amount of stranded investment that will be experienced by Arizona utilities. The utilities should be required to provide the necessary information for further study in the separate ACC docket described above. Completion of that docket should not, however, delay implementation of the phase-in program described above by the dates specified, as stated above.

d. Preliminary estimates of the magnitude of stranded investment (please provide supporting analyses).

Information needed to answer this question is not currently available to Asarco, BHP or Cyprus, as stated above. The magnitude of stranded investment should be addressed in a special docket during Stage I of the phase-in period. Utilities should be required to provide the information necessary to perform the relevant calculations as soon as possible, and utilities should bear the burden of proving the amount of their stranded investment, as defined in this filing.

e. The proper ratemaking treatment of negative stranded investment.

To the extent that certain utility assets result in negative stranded investment, i.e., market values in excess of net book values, there should be an offsetting deduction from the total stranded investment calculation. If the net value of any utility's *total* stranded investment turns out to be negative, the result may be a temporary windfall to the utility's shareholders; however, the market presence of such cost-effective performers is also likely to inure to the benefit of consumers in the long run.

f. From whom stranded investment should be recovered.

If and to the extent that stranded investment is determined to be, in part, a customer responsibility, it should be collected from wholesale and retail customers for whom generation capacity was constructed under a requirements contract or obligation to serve, but only if the prudent cost of such generation becomes otherwise unrecoverable by the utility due to the customer's decision to substitute the purchase of the utility's generation with that of another supplier in an open access transaction. The applicability of stranded investment should reflect the *extent* of the utility's commitment to provide generation capacity, e.g., the degree of firmness involved.

g. The mechanism for recovery of stranded investment.

The mechanism for recovery of stranded investment from retail customers, to the extent that any such recovery is proper, should be developed in a rule making proceeding following the introduction of a phase-in retail access program. If any stranded investment charge is levied, it should be structured as a retail access charge on the distribution system. Because stranded investment is closely associated with generation capacity, charges to recover stranded investment should emphasize demand charges, rather than energy charges. In addition, captive and special contracts customers should not be subject to a retail access charge until they are given the opportunity to participate in the competitive market. Asarco, BHP and Cyprus oppose exit fees as a mechanism for recovery of stranded investment. Electricity customers should be free to increase, decrease or discontinue their

electrical load, or to self-generate, without facing stranded investment exit fees as a result of doing so. A separate mechanism for recovery of stranded investment from wholesale customers may be necessary.

h. The time period over which stranded investment is to be recovered.

Recovery should be over as short a period as possible, to minimize market distortions that will result from the imposition of charges to recover any portion of stranded investment. The precise time period should be determined in the separate stranded investment docket described above.

i. How utilities can mitigate stranded investment.

Stranded investment is appropriately defined as "net" of possible utility mitigation, meaning that utilities should be expected to participate in markets for new services and redeploy assets to take advantage of competitive opportunities. Redeployment might result, for example, from using assets that are idled by competition to sell electrical service to customers located outside a utility's traditional service area. Stranded investment charges should not recover any costs relating to assets that can be employed or redeployed in this manner.

A10. Recovery of Costs of Commission-Mandated Utility Low Income, DSM, Environmental, and Nuclear Power Plant Decommissioning Programs("Mandated Programs").

a. How shall costs of mandated programs be recovered from participants in the competitive market?

Many mandated programs provide private and societal benefits, but their imposition by the ACC may be incompatible with a competitive marketplace. The ACC should identify which programs can survive in a market environment (e.g., DSM) and take steps to effectuate an appropriate transition. Other programs (e.g., low-income) should be established by the Legislature.

b. How shall the magnitude of the costs of mandated programs be determined?

At a minimum, each program should be capped at its current total cost, pending its ultimate disposition.

A11. Encouragement of Renewables.

a. How shall renewables be encouraged in a competitive environment? Please discuss such mechanisms as a requirement that x percent of energy sold in the competitive market must come from solar resources.

"Green tariffs" should be used to encourage renewable energy sources. These tariffs would allow customers who voluntarily elect to do so to purchase electricity from "green" or renewable generation sources. No particular percentage of total electricity generation in Arizona should be required to come from renewable generating sources; instead, market forces, should determine the percentage of generation that is from renewable sources.

b. How could progress in encouraging renewables be measured?

Staff could prepare periodic reports.

c. How could a renewables program be enforced by the Commission?

The ACC should mandate the availability, but not the use, of voluntary green tariffs, as described above.

A12. Pooling of Generation and Centralized Dispatch of Generation of Transmission.

a. Should pooling of generation or centralized dispatch of generation or transmission be mandatory or voluntary?

Pooling of generation should not be mandated, but centralized dispatch of the generation/transmission system will be necessary. Procedures must be established which ensure that dispatch is conducted in a non-discriminatory manner consistent with functional separation. The question of whether an independent system operator best fulfills this purpose should be investigated during Stage I of the phase-in.

b. What technical requirements will be necessary to ensure reliable and efficient use of generation and transmission resources? Please propose specific requirements, if possible.

The system should continue to use the existing reliability criteria of the WSCC. Currently, the three regional transmission groups in the Western Interconnection are developing transmission planning processes to provide for the efficient use of existing and planned transmission facilities. Efficient use of generation will require the integration of this process with a competitive retail market.

***A13. Non-Public Service Corporations**. How shall non-public service corporations such as municipal utilities be involved in a competitive market? For example, the service territories of Arizona utilities not regulated by the Commission may not be able to compete for sales in the service territories of the utilities identified in Section A1. Alternatively, any Arizona utility not regulated by the Commission may voluntarily participate in a competitive program if it makes its service territory available to*

competing sellers and if it agrees to all of the requirements of the Commission's competitive program.

The ACC and Legislature should seek to design a system based on reciprocity among utilities within Arizona. However, absence of reciprocity should not delay the introduction of competition from power marketers and out-of-state utilities. Similarly, the ACC should not interfere with any non-public service corporation which voluntarily participates in competitive programs by making its service territory available to competing sellers in a competitive market.

A14. Conditions for Returning to Utility Service After the Conclusion of a Pilot Program. *If a pilot program were adopted, please indicate what conditions are appropriate for returning to utility service after the conclusion of the pilot.*

Asarco, BHP and Cyprus propose a phase-in to full competition, rather than a time-limited pilot. Thus, the question of a return to service after *conclusion* of a pilot is not directly applicable. In the context of the phase-in proposal discussed in this filing, customers participating in any phase-in stage prior to full competition should be allowed to return to the utility system on a non-discriminatory basis.

A15. Conditions for Returning to Utility Service. *Please indicate what conditions (if any) are appropriate for returning to utility service if a competitive market is on-going.*

If and to the extent that, in the future, traditional utility service co-exists with retail access, there should be a rebuttable presumption that return to utility service is impediment-free, at least so long as stranded investment charges are being levied. Alternatively, it may transpire that traditional utility service for large-load customers will cease to exist, and will be replaced by a completely competitive market that includes a utility-owned marketing affiliate which sells at market prices and is subject to the same stranded investment provisions as other retailers. In such a case, there will be no "utility service" to which one can return.

A16. Administrative Requirements.

a. *A utility may require consumers obtaining generation from another entity to adhere to reasonable scheduling notification requirements, accept reasonable delivery points, adhere to reasonable metering requirements, and accept reasonable remote control requirements for interruptions or other purposes. Please specify what you consider to be reasonable.*

Examples of reasonable administrative requirements are included in the proposed T-1 and D-1 tariffs.

b. How should the utilities identified in Section A1 notify their customers of the adoption of a competitive program by the Commission?

Utilities should send notices with customers' bills. Larger customers should be informed by customer representatives.

A17. Impacts on Other Utility Customers. *Please indicate how adverse impacts on rates or service quality for utility customers not participating in the competitive market could be minimized.*

Impact mitigation may differ depending upon circumstances. For example, customers not participating in the competitive market because they are *captive* should still be assured of service under a provider of last resort program like that described herein. Properly unbundled prices will help avoid any inequitable price impacts resulting from competition.

A18. Reporting Requirements for All Sellers of Electricity to End Users. *Please indicate what reporting requirements (to the Commission) are appropriate and who should file reports.*

If sellers of electricity are to receive stranded investment payments, the sellers should be required to file the information necessary to substantiate their claim and give interested parties the opportunity to calculate offsetting benefits to the seller from competition.

In addition the following information will be helpful in monitoring the performance of regulated activities and the efficacy of functional separation:

(1) Annual financial report plus 5-year financial forecasts associated with the regulated activities (transmission and distribution);

(2) Annual report discussing/justifying the allocation of common costs between regulated and non-regulated subsidiaries, if applicable;

(3) Quarterly transfer pricing report - report that discloses whether transfer pricing activities are non-discriminatory; and

(4) Annual report on the reliability of the regulated activities (transmission and distribution) - this report should be coordinated with the 5-year financial forecasts.

A19. Certificates of Convenience and Necessity. *Please comment on whether competitive sellers who supply electricity to an end user must obtain a Certificate of Convenience and Necessity from the Commission (unless the seller already has an applicable*

Certificate). Please describe whether any conditions on the certificate would be necessary.

Sellers who supply any form of electrical service in a competitive market should not be required to obtain a certificate of convenience and necessity. Some information as to qualification to provide electrical service (credit worthiness, experience, expertise, etc.) may be required, however, to protect public safety.

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

The following retail transmission tariff is a model which is intended to facilitate the analysis and approval of retail wheeling at transmission-level voltage in Arizona as part of the phase-in of retail competition. The tariff is based on wholesale transmission, retail transmission and retail distribution tariffs that have been adopted in other parts of the United States. This tariff is also intended to conform generally to provisions of FERC Order 888. This tariff as designed is applicable to individual retail transmission customers with aggregate peak loads of 3,000 kilowatts or greater. Use of this tariff to accommodate retail access for smaller load customers can be accomplished through modifications incorporating the role of retail aggregators.

Rates for services are blank in this tariff, but should reflect actual costs of service in Arizona. Presentation of this T-1 tariff is intended to address many of the terms and service-related issues that are raised in the ACC Staff's questions. This model should provide a helpful framework for the implementation of the retail transmission tariff that is necessary to make retail competition possible.

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

I. Availability:

Service under this tariff is available to individual Customers that experienced peak electric demands, aggregated over all of the Customer's meters, of three megawatts or greater on the Company's electric system at any time during the twelve months ending December 31, 1996. The effective date of this tariff shall be March 1, 1997.

II. Definitions: As used in this tariff, the following terms shall have the meanings specified:

"ACC" means the Arizona Corporation Commission.

"Available Receipt Point" means a Receipt Point that the Company has determined has adequate capacity under normal operating conditions to accept delivery of scheduled Off-system Purchases without impairing the reliability of the Company's electric system or the quality of service to other Customers.

"Company" means [name of transmission company].

"Control Area" means a NERC-recognized portion of a power grid which regulates its generation in order to maintain its interchange schedule with other like portions of the power grid.

"Customer" means the owner or lessee of a single premises, or multiple premises, that receives transmission service from the Company as provided herein.

"Delivery Day" means the 24-hour period from midnight to midnight, local time, when Off-system Purchases may be scheduled for delivery to Available Receipt Points.

"Delivery Point" means a point where the Company's electric system is connected to a Rate T-1 Customer.

"NERC" means the North American Electric Reliability Council.

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE
FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

"Off-system Purchases" means electric power purchased by Rate T-1 Customers from any electric supplier.

"Person" means an individual, corporation, partnership, governmental body or agency, or other recognized entity.

"Receipt Point" means a point or points where the Company is interconnected with another public utility or with any supplier of electric energy.

"Supplier" means any Person that contracts with a Customer to furnish Off-system Purchases or any other service that Customers are permitted by this tariff to purchase off-system.

"Transmission Capacity" means electric lines and related facilities operating at nominal system voltage levels of 46 kV or higher.

"Transmission-level Voltage" means 46 kV and above.

"WSCC" means the Western Systems Coordinating Council.

III. Nature of Service:

For the period March 1, 1997 through February 28, 1998, the Company will contract to deliver Off-system Purchases to a Rate T-1 Customer, in an amount equal to the Customer's total energy usage less [95] percent of the Customer's average daily energy usage, if any, over the three year time period, 1994 through 1996. After March 1, 1998, there will be no restrictions on the amount of Off-system Purchases that the Customer may make.

The services provided by the Company under this tariff will include firm delivery of Off-system Purchases from an Available Receipt Point to the Customer's Delivery Point. In addition, the Company will provide Scheduling, System Control and Dispatch Service, Reactive Supply and Voltage Control from Generation Sources Service, and, to the extent not otherwise provided, Regulation and Frequency

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE
FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

Response (Load Following) Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service.

Except as hereinafter set forth, Rate T-1 Customers shall be entitled to service under and shall continue to be subject to the charges in the respective rates and contracts under which the Customers were served immediately prior to elective service under this tariff T-1, including any changes in those rates that may be approved by the Commission from time to time.

All energy and capacity scheduled by the Company and delivered from an alternate supplier will be deemed "first through the meter" for monthly billing purposes, except when the Customer is purchasing Regulation and Frequency Response (Load Following) Service Off-system, in which event the Off-system Purchases delivered to the Customer shall be deemed to be the last power and energy through the Customer's meter.

IV. Special Terms and Conditions:

A. Within thirty days after reserving capacity under this tariff, and before receiving service under this tariff, a Customer must enter into a contract with the Company for such service, in a standard form approved by the ACC or in another form mutually agreeable to the Customer and the Company. The contract shall specify the capacity to be reserved on the Company's transmission systems for delivery of Off-system Purchases, the primary Receipt Points for the Customer's Off-system Purchases, the services that are to be furnished by off-system Suppliers, and the services that are to be furnished by the Company. The primary Receipt Points designated in an executed contract shall be deemed Available Receipt Points with respect to that contract.

B. The Company shall have no responsibility for delivery of Off-system Purchases until the power has been received into the Company's system. In the event of a lack of capacity to handle all electric flows at an Available Receipt Point, the Company will comply with the rules, regulations, and guidelines of WSCC and NERC applicable to such situations. In the event

the Company is unable, for any reason that is not the fault of the Company, to deliver to a Rate T-1 Customer any scheduled Off-system Purchases that the Company is otherwise able to receive into its system for the account of such Customer, the Customer shall either interrupt the delivery to the Company of such Off-system Purchases during the period the Company is unable to deliver to the Customer, or shall sell the Off-system Purchases to the Company during such period at the Company's avoided energy cost.

C. Before the Company commences delivery of Off-system Purchases to a Customer, the Customer shall furnish to the Company, at a minimum, the following information: the name and address of the Suppliers of the Customer's Off-system Purchases; the identity of the Control Area from which the Off-system Purchase are to be delivered to the Customer at the Receipt Point or Receipt Points; a detailed statement of the services to be furnished to the Customer by such Off-system Suppliers; a specification of the Available Receipt Points where the Off-system Purchases are to be delivered to the Company; and a representation that each such Supplier is contractually obligated to notify the Company by telephone within ten minutes if, for any reason, the Supplier ceases to furnish all or any part of the power scheduled to be furnished for the Customer's account and is contractually obligated to notify the Company immediately after supply is resumed. Updated information shall be furnished to the Company promptly after it is available to the Customer.

D. A Customer electing service under this tariff shall be obligated to contract and pay for transmission on the Company's system for a minimum term of ninety days. By written requests to the Company, the Customer may from time to time increase the amount of contracted capacity and the related payment obligation during the balance of the contract term. A Customer shall be permitted, upon 24 hour advance written notice, to reduce the amount of contracted capacity and the related payment obligation, provided, however, the Customer may not thereafter increase the amount of contracted capacity under this tariff except upon thirty day advance written notice. Any capacity that is released under this provision may be contractually assigned by the Customer to a third party who agrees to be bound by the provisions of this T-

1 tariff or, if the Customer makes no such assignment or if the third party does not agree to be bound by the provisions of this T-1 tariff, the released capacity shall be available for reservation by any other Rate T-1 Customers on a first come, first served basis, subject to all of the limitations set forth above.

E. Not later than noon of the twenty-fifth day of each calendar month, each Rate T-1 Customer shall furnish the Company, in writing, a schedule of Off-system Purchases. The schedule shall be delivered to the Company for the account of the Customer during the immediately succeeding calendar month. Scheduling shall be done in 100 kilowatt increments. The schedule may provide for delivery to the Company of Off-system Purchases on an hourly, daily, weekly or monthly basis, in total amounts running from zero to the Customer's maximum contracted capacity, and shall specify the Receipt Points for the Off-system Purchases. Not later than 10:00 a.m. of the day preceding the Delivery Day, the Customer may amend the delivery schedule for the Delivery Day. All amended schedules shall be furnished to the Company in writing. If the Company determines it is unable for any reason to accept Off-system Purchases at any Receipt Point scheduled by a Customer, the Company will notify the Customer immediately after such determination is made, and cooperate with the Customer to schedule delivery of the Customer's Off-system Purchases so that the reliability of the Company's electric system is not impaired and the quality of the service to other Customers is not diminished.

F. Schedules shall be furnished to the Company's energy control center by messenger, by certified or registered mail, return receipt requested or by telephone facsimile, provided, however, that facsimile delivery will not be accepted by the Company unless the Customer confirms by telephone, within thirty minutes after sending the facsimile message, that the message has been received at the Company's energy control center. Rate T-1 Customers shall provide the Company with Customer telephone numbers to receive notice.

G. At the request of any eligible Customer that has elected service under this tariff, and subject to receipt of all necessary regulatory approvals, the

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE
FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

Company will enlarge existing interconnections and will add an interconnection with any adjacent Supplier of energy, subject to the Facilities Charge specified in this tariff.

H. A Rate T-1 Customer may schedule delivery of Off-system Purchases to the Company's system through any Available Receipt Point.

I. No Customer receiving service under this tariff may elect to have Regulation and Frequency Response (load following) Service provided by any Supplier other than the Company unless that Customer installs the necessary telemetry to allow the Company, the Supplier providing the load following service, and the control area where the Supplier's generation is located to ascertain instantly all changes in the Customer's usage of power. The Company shall not be required to pay the Customer's cost of installing telemetry.

J. In addition to the foregoing Special Terms and Conditions, service under this T-1 tariff shall be subject to the Company's General Terms and Conditions applicable to electric service. In the event of any conflict between the Company's General Terms and Conditions and the Special Terms and Conditions contained in this tariff, the Special Terms and Conditions shall control with respect to service under this tariff, and the General Terms and Conditions shall control with respect to service under any other applicable rate.

V. Charges for Services Which Must Be Purchased from the Company

A. Transmission Service: $___ per kilowatt of contracted Transmission Capacity per month.

B. Scheduling, System Control and Dispatch Service: ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. Scheduling is the control room procedure which establishes a predetermined use of generation resources and/or transmission facilities to meet anticipated load. Dispatching is the control room operation of all generation resources and/or

transmission facilities on a real-time basis to meet load within the Company's Control Area.

C. **Reactive Supply and Voltage Control from Generation Sources Service:** ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. To maintain transmission voltages on the Company's transmission facilities within acceptable limits, transmission facilities and some or all generation facilities in the service area are operated to produce or absorb reactive power. This service will be provided at each of the Receipt Points and Delivery Points.

VI. Charges for Services Which Must Be Acquired, But May Be Provided by Suppliers Other Than the Company

A. **Regulation and Frequency Response (Load Following) Service:** ___mils per kilowatt hour for all energy delivered to the Customer under this tariff. This service provides for the continuous balancing of resources (generation and interchange) with loads within the Company's Control Area. Regulation and frequency response service is accomplished by committing on-line generation, the output of which is increased or reduced as necessary, usually through the use of automatic generation control, to follow the moment-by-moment changes in Customer's loads. Because of the nature of this service, unless other arrangements are made, the Company's generators will provide the capacity required to match Customer's loads and resources on a real-time basis.

B. **Energy Imbalance Service:** This service is provided when a difference occurs between the hourly scheduled amount and the hourly metered (actual delivered) amount associated with transmission to Customer's load located within the Company's Control Area. Typically, an energy imbalance is eliminated during a future period by returning energy in-kind under conditions similar to those when the initial energy was delivered. A positive deviation refers to any hour when more energy is delivered to the Company by the Supplier at the Receipt Point(s) than to the Customer by the Company at the Point(s) of Delivery. A negative deviation refers to any hour when

RATE T-1
PHASE-IN ELECTRIC TRANSMISSION SERVICE
FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

more energy is delivered to the Customer by the Company at the Delivery Point(s) than to Company by the Supplier at the Receipt Point(s).

The Company shall allow a deviation band of +/- 1.5 percent of the scheduled transaction to be applied hourly to any energy imbalance that occurs as a result of the Customer's scheduled transaction(s). All energy imbalances occurring within the deviation band, whether positive or negative, shall be applied to an energy imbalance account to be maintained by the Company. The Parties shall eliminate energy imbalances applied to the energy imbalance account within thirty (30) days after Company has notified a Customer as to the amount applied to the energy imbalance account during a billing month. If the amount of the energy imbalances for which the Customer has been notified is not eliminated within such thirty (30) day period, the amount specified in such notification remaining in the energy imbalance account shall be eliminated with the Customer paying the Company as provided below if the amount is negative and the Company paying the Customer as provided below if the amount is positive. The Company will provide the Customer with reasonable notice of imbalance scheduling opportunities as they are available.

For imbalances not eliminated within the thirty day period described in the preceding paragraph, the following shall apply:

1. Payment for Positive Deviation Energy Imbalances in Excess of +1.5 percent of the Hourly Schedule: Company shall pay the Customer ___ mills per kilowatt-hour for all energy associated with unintended positive deviation energy imbalance occurring in any hour which is in excess of the greater of +1.5 percent of the Hourly Schedule. No payment shall be owed for Positive Deviation Energy Imbalances intentionally delivered by the Customer to the Company.

2. Charges for Negative Deviation Energy Imbalances in Excess of -1.5 percent of the Hourly Schedule: The Customer shall pay Company ___ mills per kilowatt-hour for all energy associated with negative

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PHASE-IN ELECTRIC TRANSMISSION SERVICE
FOR OFF-SYSTEM PURCHASES
(Transmission-Level Voltage)

deviation energy imbalance occurring in any hour which is in excess of the greater of -1.5 percent of the Hourly Schedule.

3. Exceptions: During any hour that a Customer has an excess Negative Deviation Imbalance which is due to an unscheduled outage of a generation resource located within Company's Control Area and for which the Customer is paying the Company for Operating Reserves, such excess imbalance shall be applied to the energy balance account and the charges provided above shall not apply unless the energy account balance is not eliminated at the end of the billing month as described above.

Energy imbalances at interconnections between Company's Control Area and other Control Areas shall be in accordance with the NERC and WSCC guidelines regarding Control Area operations.

C. **Operating Reserve - Spinning Reserve Service:** ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. The Company must have adequate operating reserves in order to maintain the integrity of its transmission facilities in the event of unscheduled interruption of energy deliveries. Spinning reserve is provided by units that are on line and operating at less than maximum output. They are available to serve load immediately in an unexpected contingency. This service may be provided by the Customer. This service shall be deemed to have been "acquired" if the Customer voluntarily accepts interruption in lieu of the service.

D. **Operating Reserve - Supplemental Reserve Service:** ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. The Company must have adequate operating reserves in order to maintain the integrity of its transmission facilities in the event of unscheduled interruption of energy deliveries. Supplemental reserve is generating capacity that is used to respond to contingency situations. Supplemental reserve is not available instantaneously, but is available with ten (10) minutes notice. This service may be provided by the Customer. This service shall be deemed to have been

"acquired" if the Customer voluntarily accepts interruption in lieu of the service.

VII. Other Charges:

In addition to the monthly charges described above, the Customers receiving service under this tariff shall be subject to the following charges:

A. Facilities Charge: In the event the Customer requests the construction of an interconnector or other facilities to receive service under this tariff, or in the event the Company reasonably determines that additional metering or other facilities are reasonably required in order to provide service under this tariff without degrading or impairing the service provided to any other Customer, the Customer under this tariff shall pay the Company the reasonable cost of such interconnection, metering and other facilities.

B. Company-supplied Power: Except for power billed under Energy Imbalance Service (see above), the charge for any power, other than Off-system Purchases by the Customer, delivered by the Company to a Delivery Point serving the Customer shall be billed under the Company's prior electric service rate applicable to the Customer, as such rate may be changed from time to time.

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

The following retail distribution tariff is a model which is intended to facilitate the analysis and approval of retail wheeling at the distribution voltage level in Arizona as part of the phase-in of retail competition. The tariff is based on wholesale transmission, retail transmission and retail distribution tariffs that have been adopted in other parts of the United States. This tariff is also intended to conform generally to provisions of FERC Order 888. This tariff as designed is applicable to individual retail distribution customers with aggregate peak loads of less than 3,000 kilowatts. Use of this tariff to accommodate retail access for smaller load customers can be accomplished through modifications incorporating the role of retail aggregators.

Rates for services are blank in this tariff, but should reflect actual costs of service in Arizona. Presentation of this D-1 tariff is intended to address many of the terms and service-related issues that are raised in the ACC Staff's questions. This model should provide a helpful framework for the implementation of the retail distribution tariff that is necessary to make retail competition possible.

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

I. Availability:

Service under this tariff is available to individual Customers that experienced peak electric demands, aggregated over all of the Customer's meters, of less than three megawatts on the Company's electric system at any time during the twelve months ending December 31, 1996. The effective date of this tariff shall be March 1, 1997.

II. Definitions: As used in this tariff, the following terms shall have the meanings specified:

"ACC" means the Arizona Corporation Commission.

"Available Receipt Point" means a Receipt Point that the Company has determined has adequate capacity under normal operating conditions to accept delivery of scheduled Off-system Purchases without impairing the reliability of the Company's electric system or the quality of service to other Customers.

"Company" means [name of transmission company].

"Control Area" means a NERC-recognized portion of a power grid which regulates its generation in order to maintain its interchange schedule with other like portions of the power grid.

"Customer" means the owner or lessee of a single premises, or multiple premises, that receives transmission service from the Company as provided herein.

"Delivery Day" means the 24-hour period from midnight to midnight, local time, when Off-system Purchases may be scheduled for delivery to Available Receipt Points.

"Delivery Point" means a point where the Company's electric system is connected to a Rate D-1 Customer.

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

"Distribution Capacity" means electric lines and related facilities operating at normal system voltage levels of Distribution Level Voltage.

"Distribution Level Voltage" means voltages that are less than 46 kV.

"NERC" means the North American Electric Reliability Council.

"Off-system Purchases" means electric power purchased by Rate D-1 Customers from any electric supplier.

"Person" means an individual, corporation, partnership, governmental body or agency, or other recognized entity.

"Receipt Point" means a point or points where the Company is interconnected with another public utility or with any supplier of electric energy.

"Supplier" means any Person that contracts with a Customer to furnish Off-system Purchases or any other service that Customers are permitted by this tariff to purchase off-system.

"Transmission Capacity" means electric lines and related facilities operating at nominal system voltage levels of 46 kV or higher.

"Transmission-level Voltage" means 46 kV and above.

"WSCC" means the Western Systems Coordinating Council.

III. Nature of Service:

For the period March 1, 1997 through February 28, 1998, the Company will contract to deliver Off-system Purchases to a Rate D-1 Customer, in an amount equal to the Customer's total energy usage less [95] percent of the Customer's average daily energy usage, if any, over the three year time period, 1994 through 1996. After

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

March 1, 1998, there will be no restrictions on the amount of Off-system Purchases that the Customer may make.

The services provided by the Company under this tariff will include firm delivery of Off-system Purchases from Available Receipt Points to the Customer's Delivery Point. In addition, the Company will provide Scheduling, System Control and Dispatch Service, Reactive Supply and Voltage Control from Generation Sources Service, and, to the extent not otherwise provided, Regulation and Frequency Response (Load Following) Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service.

Except as hereinafter set forth, Rate D-1 Customers shall be entitled to service under and shall continue to be subject to the charges in the respective rates and contracts under which the Customers were served immediately prior to elective service under this tariff D-1, including any changes in those rates that may be approved by the Commission from time to time.

All energy and capacity scheduled by the Company and delivered from an alternate supplier will be deemed "first through the meter" for monthly billing purposes, except when the Customer is purchasing Regulation and Frequency Response (Load Following) Service Off-system, in which event the Off-system Purchases delivered to the Customer shall be deemed to be the last power and energy through the Customer's meter.

IV. Special Terms and Conditions:

A. Within thirty days after reserving capacity under this tariff, and before receiving service under this tariff, a Customer must enter into a contract with the Company for such service, in a standard form approved by the ACC or in another form mutually agreeable to the Customer and the Company. The contract shall specify the capacity to be reserved on the Company's distribution systems for delivery of Off-system Purchases, the primary Receipt Points for the Customer's Off-system Purchases, the services that are to be furnished by off-system Suppliers, and the services that are to be furnished by the Company. The primary Receipt Points designated in an

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

executed contract shall be deemed Available Receipt Points with respect to that contract.

B. The Company shall have no responsibility for delivery of Off-system Purchases until the power has been received into the Company's system. In the event of a lack of capacity to handle all electric flows at an Available Receipt Point, the Company will comply with the rules, regulations, and guidelines of WSCC and NERC applicable to such situations. In the event the Company is unable, for any reason that is not the fault of the Company, to deliver to a Rate D-1 Customer any scheduled Off-system Purchases that the Company is otherwise able to receive into its system for the account of such Customer, the Customer shall either interrupt the delivery to the Company of such Off-system Purchases during the period the Company is unable to deliver to the Customer, or shall sell the Off-system Purchases to the Company during such period at the Company's avoided energy cost.

C. Before the Company commences delivery of Off-system Purchases to a Customer, the Customer shall furnish to the Company, at a minimum, the following information: the name and address of the Suppliers of the Customer's Off-system Purchases; the identity of the Control Area from which the Off-system Purchase are to be delivered to the Customer at the Receipt Point or Receipt Points; a detailed statement of the services to be furnished to the Customer by such Off-system Suppliers; a specification of the Available Receipt Points where the Off-system Purchases are to be delivered to the Company; and a representation that each such Supplier is contractually obligated to notify the Company by telephone within ten minutes if, for any reason, the Supplier ceases to furnish all or any part of the power scheduled to be furnished for the Customer's account and is contractually obligated to notify the Company immediately after supply is resumed. Updated information shall be furnished to the Company promptly after it is available to the Customer.

D. A Customer electing service under this tariff shall be obligated to contract and pay for distribution on the Company's system for a minimum term of ninety days. By written requests to the Company, the Customer may from

time to time increase the amount of contracted capacity and the related payment obligation during the balance of the contract term. A Customer shall be permitted, upon 24 hour advance written notice, to reduce the amount of contracted capacity and the related payment obligation, provided, however, the Customer may not thereafter increase the amount of contracted capacity under this tariff except upon thirty day advance written notice. Any capacity that is released under this provision may be contractually assigned by the Customer to a third party who agrees to be bound by the provisions of this D-1 tariff or, if the Customer makes no such assignment or if the third party does not agree to be bound by the provisions of this D-1 tariff, the released capacity shall be available for reservation by any other Rate D-1 Customers on a first come, first served basis, subject to all of the limitations set forth above.

E. Not later than noon of the twenty-fifth day of each calendar month, each Rate D-1 Customer shall furnish the Company, in writing, a schedule of Off-system Purchases. The schedule shall be delivered to the Company for the account of the Customer during the immediately succeeding calendar month. Scheduling shall be done in 100 kilowatt increments. The schedule may provide for delivery to the Company of Off-system Purchases on an hourly, daily, weekly or monthly basis, in total amounts running from zero to the Customer's maximum contracted capacity, and shall specify the Receipt Points for the Off-system Purchases. Not later than 10:00 a.m. of the day preceding the Delivery Day, the Customer may amend the delivery schedule for the Delivery Day. All amended schedules shall be furnished to the Company in writing. If the Company determines it is unable for any reason to accept Off-system Purchases at any Receipt Point scheduled by a Customer, the Company will notify the Customer immediately after such determination is made, and cooperate with the Customer to schedule delivery of the Customer's Off-system Purchases so that the reliability of the Company's electric system is not impaired and the quality of the service to other Customers is not diminished.

F. Schedules shall be furnished to the Company's energy control center by messenger, by certified or registered mail, return receipt requested or by

telephone facsimile, provided, however, that facsimile delivery will not be accepted by the Company unless the Customer confirms by telephone, within thirty minutes after sending the facsimile message, that the message has been received at the Company's energy control center. Rate D-1 Customers shall provide the Company with Customer telephone numbers to receive notice.

G. At the request of any eligible Customer that has elected service under this tariff, and subject to receipt of all necessary regulatory approvals, the Company will enlarge existing interconnections and will add an interconnection with any adjacent Supplier of energy, subject to the Facilities Charge specified in this tariff.

H. A Rate D-1 Customer may schedule delivery of Off-system Purchases to the Company's system through any Available Receipt Point.

I. No Customer receiving service under this tariff may elect to have Regulation and Frequency Response (load following) Service provided by any Supplier other than the Company unless that Customer installs the necessary telemetry to allow the Company, the Supplier providing the load following service, and the control area where the Supplier's generation is located to ascertain instantly all changes in the Customer's usage of power. The Company shall not be required to pay the Customer's cost of installing telemetry.

J. In addition to the foregoing Special Terms and Conditions, service under this D-1 tariff shall be subject to the Company's General Terms and Conditions applicable to electric service. In the event of any conflict between the Company's General Terms and Conditions and the Special Terms and Conditions contained in this tariff, the Special Terms and Conditions shall control with respect to service under this tariff, and the General Terms and Conditions shall control with respect to service under any other applicable rate.

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution-Level Voltage)

V. Charges for Services Which Must Be Purchased from the Company

A.

1. Transmission Component: $___ per kilowatt of contracted Transmission Capacity per month.

2. Distribution Component: $___ per kilowatt of contracted Distribution Capacity per month.

B. Scheduling, System Control and Dispatch Service: ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. Scheduling is the control room procedure which establishes a predetermined use of generation resources and/or transmission facilities to meet anticipated load. Dispatching is the control room operation of all generation resources and/or transmission facilities on a real-time basis to meet load within the Company's Control Area.

C. Reactive Supply and Voltage Control from Generation Sources Service: ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. To maintain transmission voltages on the Company's transmission facilities within acceptable limits, transmission facilities and some or all generation facilities in the service area are operated to produce or absorb reactive power. This service will be provided at each of the Receipt Points and Delivery Points.

VI. Charges for Services Which Must Be Purchased, But May Be Provided by Suppliers Other Than the Company

A. Regulation and Frequency Response (Load Following) Service: ___mills per kilowatt hour for all energy delivered to the Customer under this tariff. This service provides for the continuous balancing of resources (generation and interchange) with loads within the Company's Control Area. Regulation and frequency response service is accomplished by committing on-line

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generation, the output of which is increased or reduced as necessary, usually through the use of automatic generation control, to follow the moment-by-moment changes in Customer's loads. Because of the nature of this service, unless other arrangements are made, the Company's generators will provide the capacity required to match Customer's loads and resources on a real-time basis.

B. **Energy Imbalance Service:** This service is provided when a difference occurs between the hourly scheduled amount and the hourly metered (actual delivered) amount associated with transmission to Customer's load located within the Company's Control Area. Typically, an energy imbalance is eliminated during a future period by returning energy in-kind under conditions similar to those when the initial energy was delivered. A positive deviation refers to any hour when more energy is delivered to the Company by the Supplier at the Receipt Point(s) than to the Customer by the Company at the Point(s) of Delivery. A negative deviation refers to any hour when more energy is delivered to the Customer by the Company at the Delivery Point(s) than to Company by the Supplier at the Receipt Point(s).

The Company shall allow a deviation band of +/- 1.5 percent of the scheduled transaction to be applied hourly to any energy imbalance that occurs as a result of the Customer's scheduled transaction(s). All energy imbalances occurring within the deviation band, whether positive or negative, shall be applied to an energy imbalance account to be maintained by the Company. The Parties shall eliminate energy imbalances applied to the energy imbalance account within thirty (30) days after Company has notified a Customer as to the amount applied to the energy imbalance account during a billing month. If the amount of the energy imbalances for which the Customer has been notified is not eliminated within such thirty (30) day period, the amount specified in such notification remaining in the energy imbalance account shall be eliminated with the Customer paying the Company as provided below if the amount is negative and the Company paying the Customer as provided below if the amount is positive. The Company will provide the Customer with reasonable notice of imbalance scheduling opportunities as they are available.

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For imbalances not eliminated within the thirty day period described in the preceding paragraph, the following shall apply:

1. Payment for Positive Deviation Energy Imbalances in Excess of +1.5 percent of the Hourly Schedule: Company shall pay the Customer ___ mills per kilowatt-hour for all energy associated with unintended positive deviation energy imbalance occurring in any hour which is in excess of the greater of +1.5 percent of the Hourly Schedule. No payment shall be owed for Positive Deviation Energy Imbalances intentionally delivered by the Customer to the Company.

2. Charges for Negative Deviation Energy Imbalances in Excess of -1.5 percent of the Hourly Schedule: The Customer shall pay Company ___ mills per kilowatt-hour for all energy associated with negative deviation energy imbalance occurring in any hour which is in excess of the greater of -1.5 percent of the Hourly Schedule.

3. Exceptions: During any hour that a Customer has an excess Negative Deviation Imbalance which is due to an unscheduled outage of a generation resource located within Company's Control Area and for which the Customer is paying the Company for Operating Reserves, such excess imbalance shall be applied to the energy balance account and the charges provided above shall not apply unless the energy account balance is not eliminated at the end of the billing month as described above.

For energy imbalances at interconnections between Company's Control Area and other Control Areas shall be in accordance with the NERC and WSCC guidelines regarding Control Area operations.

C. **Operating Reserve - Spinning Reserve Service:** ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. The Company must have adequate operating reserves in order to maintain the integrity of its transmission facilities in the event of unscheduled interruption of energy deliveries. Spinning reserve is provided by units that are on line and

operating at less than maximum output. They are available to serve load immediately in an unexpected contingency. This service may be provided by the Customer. This service shall be deemed to have been "acquired" if the Customer voluntarily accepts interruption in lieu of the service.

D. Operating Reserve - Supplemental Reserve Service: ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. The Company must have adequate operating reserves in order to maintain the integrity of its transmission facilities in the event of unscheduled interruption of energy deliveries. Supplemental reserve is generating capacity that can be used to respond to contingency situations. Supplemental reserve is not available instantaneously, but is available with ten (10) minutes notice. This service shall be deemed to have been "acquired" if the Customer voluntarily accepts interruption in lieu of the service.

VII. Other Charges:

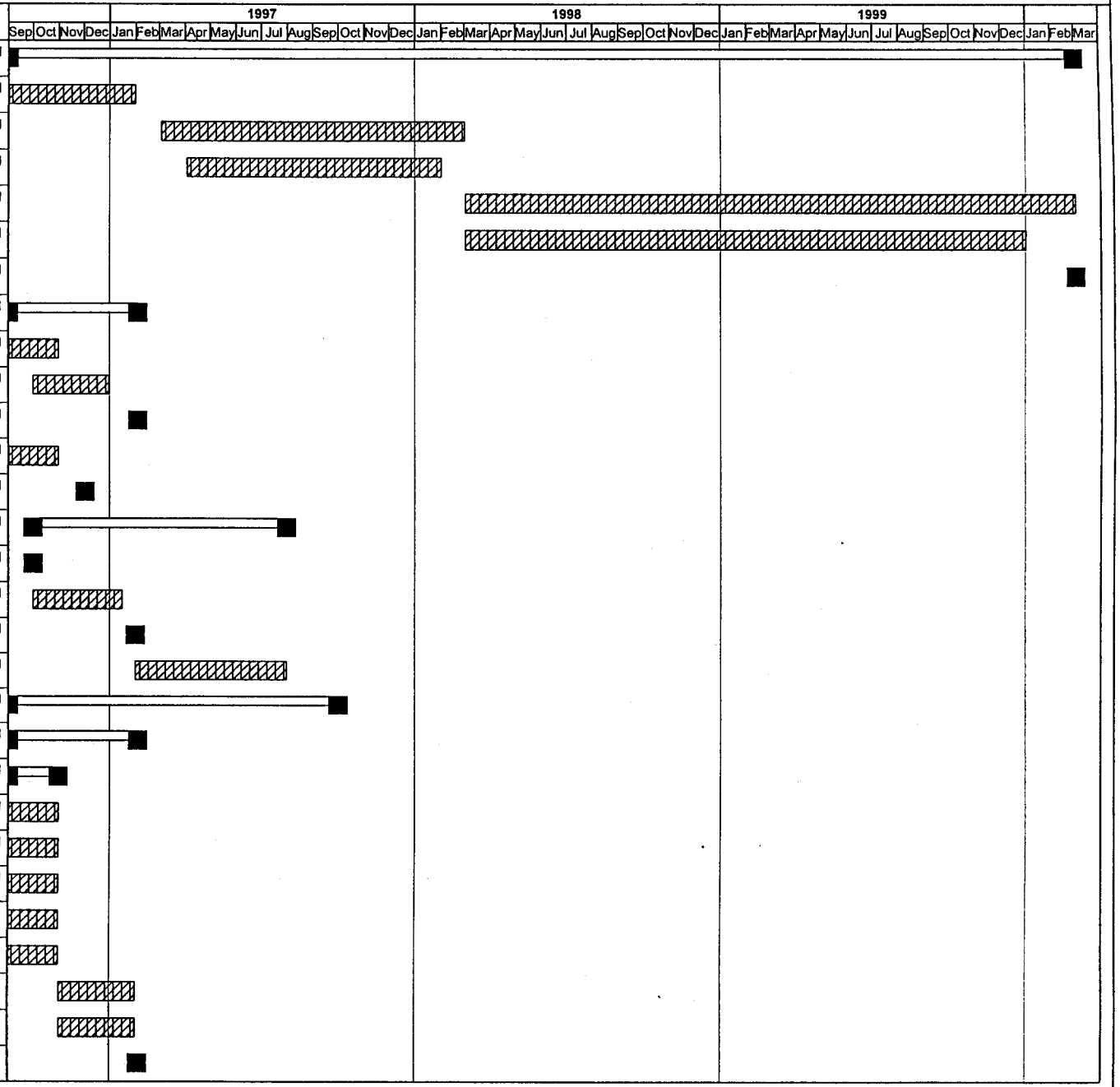
In addition to the monthly charges described above, the Customers receiving service under this tariff shall be subject to the following charges:

A. Facilities Charge: In the event the Customer requests the construction of an interconnector or other facilities to receive service under this tariff, or in the event the Company reasonably determines that additional metering or other facilities are reasonably required in order to provide service under this tariff without degrading or impairing the service provided to any other Customer, the Customer under this tariff shall pay the Company the reasonable cost of such interconnection, metering and other facilities.

B. Company-supplied Power: Except for power billed under Energy Imbalance Service (see above), the charge for any power, other than Off-system Purchases by the Customer, delivered by the Company to a Delivery Point serving the Customer shall be billed under the Company's prior electric service rate applicable to the Customer, as such rate may be changed from time to time.

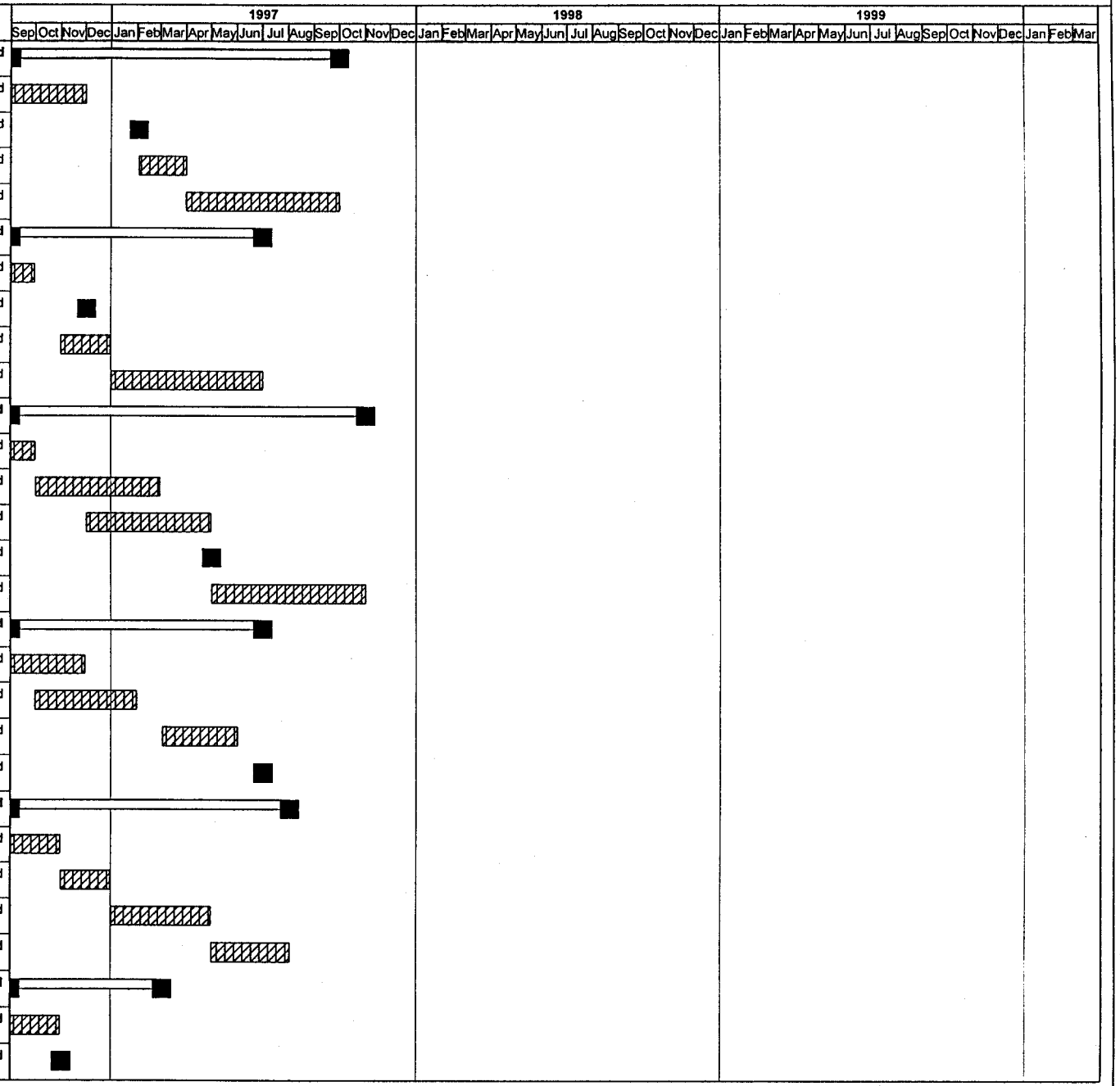
Attachment C - Electric Competition Implementation Schedule for Arizona

ID	Name	Duration
1	**A. Overall Phase-In Plan**	**913d**
2	Phase I Rulemaking and Decision	110d
3	Phase I Period	260d
4	Phase I Evaluation	217d
5	Phase II Period	523d
6	Phase II Evaluation	480d
7	Phase III - Full Open Access	1d
8	**B. Public Program Issues**	**111d**
9	Program Identification and Review	44d
10	DSM Program Market Test Review	66d
11	Recommendations on Market Test Due	1d
12	Low Income Program Review	44d
13	Recommendations on Low Income Programs	1d
14	**C. Stranded Cost Issues**	**218d**
15	Utilities File Estimates and Methodology	1d
16	Staff & Parties Review	77d
17	Comments Due	1d
18	ACC Rulemaking and Decision	130d
19	**D. Functional Divestiture Issues**	**283d**
20	**1. Unbundled Services Plan**	**111d**
21	**Develop Unbundled Services List**	**44d**
22	Distribution Services	44d
23	Transmission Services	44d
24	Generation Services	44d
25	Retail Services	44d
26	Other Services	44d
27	Refine Proforma Distribution Tariff	66d
28	Refine Proforma Transmission Tariff	66d
29	Present Tariffs to ACC for Approval	1d



Attachment C - Electric Competition Implementation Schedule for Arizona

ID	Name	Duration
30	**2. Independent System Operator Issues**	**283d**
31	Determination of Need	65d
32	Comments Due on Optimal System	1d
33	Implementation Plan Proposals Due	42d
34	ACC Rulemaking and Decision	132d
35	**3. Market Power Issues**	**217d**
36	Issue Identification	21d
37	Parties Comment on Issues	22d
38	Parties Propose Affiliate Interest Rules	43d
39	ACC Rulemaking and Decision	130d
40	**E. Obligation to Serve/Universal Service Issues**	**305d**
41	Identify Key Issues	22d
42	Determine Necessary Services/Costs	108d
43	Develop Cost Review Mechanism	108d
44	Present Mechanism to ACC	1d
45	ACC Rulemaking and Decision	132d
46	**F. Quality/Reliab. of Service Stndrds. Task Force**	**217d**
47	Identify Current Reliability Standards	65d
48	Review Standards in Other Jurisdictions	89d
49	Develop Position on Reliability Stnds. for AZ	65d
50	Present Standards to ACC for Approval	1d
51	**G. Metering/Technology Issues Task Force**	**240d**
52	Identify Key Technical Issues	44d
53	Parties Comment of Issues	43d
54	Task Force Drafts Report to ACC	86d
55	ACC Determines Technical Standards	67d
56	**H. Consumer Protection Issues**	**131d**
57	Identify Key Issues in Task Force	44d
58	Parties Comment on Issues	1d



Attachment C - Electric Competition Implementation Schedule for Arizona

ID	Name	Duration
59	Develop Joint Consumer Protection Plan	86d
60	Present Plan to ACC for Review and Approval	1d
61	**I. Integrated Resource Planning Issues**	**130d**
62	Review Pending Staff Comments	21d
63	Provide Comments and Recommendations	44d
64	ACC Issues New Rules (if required)	65d
65	**J. Legislative Needs**	**174d**
66	Identify AZ Legislative Needs	21d
67	Develop Joint Solutions (If Possible)	89d
68	Implement Joint Solutions	87d